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Decision

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS &)
 ELECTRIC COMPANY to modify and)
 amend its Indentures for its)
 4-5/8% Sinking Fund Debentures)
 due January 15, 1984, and its)
 4-1/2% Sinking Fund Debentures)
 due September 1, 1994, and to)
 issue not exceeding \$23,450,000)
 of First Mortgage Bonds in)
 exchange for the Debentures and)
 to execute one or more)
 Supplemental Indentures.)

Application 60554
(Filed May 15, 1981)

O P I N I O N

San Diego Gas & Electric Company (SDG&E) requests authority under Public Utilities (PU) Code Sections 816 through 818 and 851 for the following:

1. To modify and amend the indentures for its 4-5/8% sinking fund Debentures due January 15, 1984, and its 4-1/2% sinking fund Debentures due September 1, 1994 (Debentures);
2. To issue not exceeding \$23,450,000 aggregate principal amount of its first mortgage bonds (Bonds) in exchange for the Debentures and to execute and deliver one or more supplemental indentures with respect thereto; and
3. To exchange such proposed issue or issues of Bonds pursuant to and exempt from the requirements of the Commission's competitive bidding rule.

Notice of the filing of this application appeared on the Commission's Daily Calendar of May 19, 1981. No protests have been received.

SDG&E, a California corporation, engages principally in the business of providing electric service in portions of Imperial and Orange counties. It also provides electric, gas, and steam service in portions of San Diego county.

On its Income Statement for the three months ended March 31, 1981, shown as part of Exhibit B attached to the application, SDG&E reports it generated total operating revenues of \$271,959,098 and net income of \$24,024,016.

SDG&E's Balance Sheet as of March 31, 1981, also shown as part of Exhibit B, is summarized as follows:

<u>Assets and Other Debits</u>	<u>Amount.</u>
Net Utility Plant	\$1,635,107,037
Net Other Property and Investments	16,283,074
Current and Accrued Assets	304,801,206
Deferred Debits	61,855,551
Total	<u>\$2,018,046,868</u>
<u>Liabilities and Other Credits</u>	<u>Amount</u>
Common Stock Equity	\$ 593,464,670
Preferred/Preference Stock	213,500,000
Long-Term Debt	733,708,998
Current and Accrued Liabilities	409,473,515
Deferred Credits and Reserves	67,899,685
Total	<u>\$2,018,046,868</u>

In Decision (D.) 57718, dated December 16, 1958, in Application (A.) 40646, this Commission authorized the creation of the 4-5/8% sinking fund debentures due January 15, 1984, and the execution of related indenture. In D.67672, dated August 11, 1964, in A.46837, this Commission authorized the issuance of the 4-1/2% sinking fund debentures due September 1, 1994, and the execution of an indenture. SDG&E proposes to amend the respective indentures to (1) change the sinking fund requirements to lessen the amount required to be paid and (2) to delete the limitation on funded debt which provides for an interest coverage test, which is more restrictive than that contained in its mortgage indenture. Upon obtaining the requested consent for such modification and amendment, SDG&E proposes to exchange the outstanding Debentures for its first mortgage Bonds at par, with an interest rate slightly higher than that which exists on the Debentures. (It is estimated that the increase in interest rate will be 1/4 to 1/2%.) The principal amount of first mortgage Bonds issued is dependent on the number of debentures exchanged; however, the total amount of debt outstanding (Bonds and Debentures) will remain unchanged. The maturity date, sinking fund requirements, call protection, and other written provisions will be essentially the same as for the respective Debenture issue.

SDG&E's capital ratios as of March 31, 1981, adjusted to give effect to:

1. The proposed issue and sale of up to \$75,000,000 aggregate principal amount of SDG&E's bonds (D.92939, dated April 21, 1981, in A.60297);
2. The issue and sale of up to 1,600,000 shares of cumulative preference stock, without par value, estimated to produce up to \$40,000,000 (D.92756, dated March 3, 1980, in A.60206); and
3. The issue and sale of up to 6,500,000 shares of common stock, \$5 par value, estimated to produce net proceeds of \$84,500,000 (D.92805, dated March 17, 1981, in A.60228)

are summarized as follows:

	<u>March 31, 1981</u>	<u>Pro Forma</u>
Debentures	1.5%	
First Mortgage Bonds	40.0	41.0%
Other Long-Term Debt	6.0	5.4
Total Long-Term Debt	<u>47.5</u>	<u>46.4</u>
Preferred/Preference Stock	13.9	14.6
Common Stock Equity	38.6	39.0
Total	<u>100.0%</u>	<u>100.0%</u>

SDG&E's construction budget for the calendar year 1980 amounted to \$226,535,000 of which \$215,377,000 has been spent. A detailed classification of the budgeted construction for 1981 and 1982 is as follows:

<u>Purpose</u>	<u>1981</u>	<u>1982</u>
Electric Production	\$126,857,000	\$ 76,266,000
Electric Transmission	35,495,000	109,873,000
Electric Distribution	73,308,000	92,934,000
Gas and Steam Production, Transmission, and Distribution	19,180,000	20,288,000
Common Plant	5,112,000	6,926,000
Total	<u>\$259,952,000</u>	<u>\$306,287,000</u>

The Commission's Revenue Requirements Division has reviewed SDG&E's construction program and has concluded that the utility's estimated construction program is necessary. The Division has no objection to the proposed security issue specified in the application; however, the Division reserves the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

SDG&E requests that the issuance and exchange of Debentures for Bonds be exempt from the Commission's competitive bidding rule, established in D.38614, as amended from time to time in Case (C.) 4761. Due to the fact that this request contemplates an exchange transaction of existing securities as distinguished from an initial sale of new bonds, we will grant an exemption from the competitive bidding rule.

SDG&E, in support of its request, states that it has from time to time been prevented from issuing additional debt securities due to the interest coverage requirement limitation in the indenture. Approval of this request will remove the limitation. Also, SDG&E has been unable to use different innovative forms of financing, such as project financing and construction trusts, due to the interest coverage test.

The Revenue Requirements Division has no objection to the proposed modification and amendment of the debenture indentures and the exchange and issuance of Bonds for Debentures, because the removal of the interest coverage requirements will provide greater financial flexibility.

Findings of Fact

1. SDG&E, a California corporation, operates under the jurisdiction of this Commission.

2. The proposed Debenture indenture modification amendment and the proposed Bonds would be for proper purposes.

3. The proposed Debenture and Bond supplemental indentures would not be adverse to the public interest.

4. The exchange for the proposed Bonds should be exempted from the requirements of the Commission's competitive bidding rule.

5. The modifications, amendment, and exchange authorized are reasonably required for the purposes specified, which purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

6. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

The authorization granted by this order to exchange debt securities is for the purposes of this proceeding only. It is not to be construed as indicative of amounts to be included in ratesetting proceedings.

SDG&E is hereby placed on notice that if the Commission believes that the negotiated price or interest rate pertaining to the proposed Bond issue(s) will result in an excessive effective interest cost, it will take into consideration in rate proceedings only that which it deems reasonable.

This decision is not intended to modify the competitive bidding rule initially established in D.38614 as amended by the Commission in subsequent decisions in C.4761.

The following order should be made effective on the date of signature to enable SDG&E to expeditiously exchange its debt securities.

O R D E R

IT IS ORDERED that:

1. The modification and amendment by San Diego Gas & Electric Company of its 4-5/8% sinking fund Debentures due January 15, 1984, and its 4-1/2% sinking fund Debentures due September 1, 1994, are authorized, and the exchange of Debentures of up to \$23,450,000 aggregate principal amount of its first mortgage Bonds is authorized and is exempted from the Commission's competitive bidding rule set forth in D.38614, dated January 15, 1946, as amended in C.4761.

2. San Diego Gas & Electric Company may execute and deliver supplemental indentures for its Debentures and first mortgage Bonds as contemplated by the application with the modification or insertion of the terms as proposed and conditions such as interest rate, principal amount, maturity date, place and manner of payment, sinking fund, call protection, and other redemption provisions and redemption restrictions as may be contemplated by the application.

3. San Diego Gas & Electric Company, may exchange up to \$23,450,000 aggregate principal amount of Debentures for first mortgage Bonds on terms and conditions to be negotiated as set out in the application.

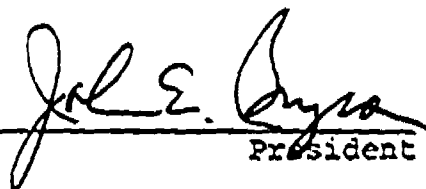
4. Upon determining the interest rate and other terms pertaining to the Bonds authorized, San Diego Gas & Electric Company shall notify the Commission in writing.

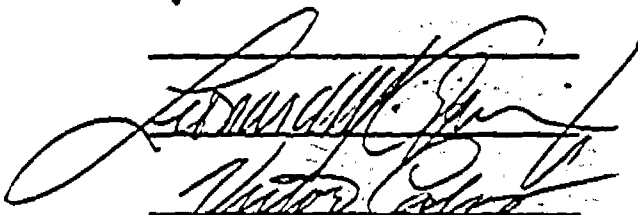


5. As soon as available, San Diego Gas & Electric Company shall file with the Commission three copies of its final prospectus pertaining to this exchange transaction and copies of all supplemental indentures.

6. San Diego Gas & Electric Company shall file with the Commission a report or reports as required by General Order Series 24.

7. This order is effective today.

Dated JUL 7 1981, at San Francisco, California.


President




Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.